

### SECTOR UPDATE

## REITs – Singapore

Implications Of Yield Curve Inversion On S-REITs

**Risk of the US economy slipping into a recession has increased with an inversion of the US yield curve since 1 Apr 22. S-REITs underperformed after the inversion in Nov 06 but performed in line with the broader market after the inversion in Aug 19. The Russia-Ukraine war creates heightened uncertainties and has pushed bond yields higher. BUY ART (Target: S\$1.29), FCT (Target: S\$2.98), MCT (Target: S\$2.48) and MINT (Target: S\$3.72). Maintain OVERWEIGHT.**

### WHAT'S NEW

- **Most reliable indicator of recessions – inverted yield curve.** Inversion of yield curve is a reliable indicator and has predicted all nine recessions in the US over the past 60 years. An inverted yield curve is followed by a recession within two years. The time lag between inversion of yield curve to the beginning of recession ranges from six to 24 months. According to Federal Reserve Bank of San Francisco, the inverted yield's ability to predict recessions has not diminished despite the recent low-interest rate environment.
- We gauge the slope of the yield curve using the 10-2 year term spread, and the difference between yields for government bonds with maturities of 10 years and two years.

### TOTAL RETURN FOR S-REITS AND FSSTI AFTER INVERSION OF YIELD CURVE

Total Return	3M	6M	9M	12M	15M	18M	21M	24M
<b>Global Financial Crisis (Inversion Occurred on 23 Nov 06)</b>								
FTSE ST REITs	23.3	30.2	13.5	1.2	-0.9	3.5	-13.5	-56.4
FSSTI	17.1	26.3	19.8	18.8	10.4	14.3	0.8	-38.0
Relative Performance	6.2	4.0	-6.3	-17.5	-11.2	-10.8	-14.3	-18.4
<b>COVID-19 Pandemic (Inversion Occurred on 15 Aug 19)</b>								
FTSE ST REITs	2.1	9.6	-14.5	-2.9	-3.5	1.5	-1.0	7.0
FSSTI	4.0	4.0	-17.7	-14.3	-9.1	-1.3	4.2	8.9
Relative Performance	-1.9	5.5	3.1	11.3	5.5	2.8	-5.3	-1.9

Source: Bloomberg, UOB Kay Hian

- **Inverted yield curve predicted last two recessions in Singapore.** In Singapore, the inverted yield curve has correctly predicted the recessions during the Global Financial Crisis and COVID-19 pandemic. The inversion of yield curve took place on 23 Nov 06 and 15 Aug 19 and, coincidentally, occurred for only one day.

- S-REITs started to underperform earlier, three quarters after the inversion. The Global Financial Crisis eventually erupted seven quarters (about 18 months) after the inversion. S-REITs corrected 56.4% and underperformed by 18.4% during the two years after yield curve has started to invert. Banks were under stress after Lehman Brothers collapsed and S-REITs had difficulty accessing funding for refinancing due to the ensuing credit crunch. US FED Fund Rate was elevated and reached a high of 5.00% during the cycle.
- The COVID-19 pandemic erupted three quarters (about nine months) after inversion. S-REITs, being defensive yield plays, outperformed most of the time during the COVID-19 pandemic. The banking sector was resilient and consistently supported the funding requirements of S-REITs for acquisitions and refinancing throughout the COVID-19 pandemic. The US economy weathered a mild rate hike cycle and the peak US FED Fund Rate was lower at 2.25%.

### ACTION

- **Has the yield curve signalled a forthcoming recession?** The risk of the global economy slipping into a recession has increased. In the US, the yield curve has inverted and the 10Y-2Y term spread has slipped into negative territory since 1 Apr 22, signalling a potential recession 6-24 months down the road. In Singapore, the slope of the yield curve has flattened but remains upward sloping. The 10Y-2Y term spread stayed marginally positive at 0.5%.

### PEER COMPARISON

Name	Ticker	Rec	Price 4 Apr 22	Target Price	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
						Hist	Curr	Fwd 1Y	Fwd 2Y			
Ascott Trust	ART SP	BUY	1.13	1.29	2,738	3.8	4.8	5.3	5.6	70.4	37.1	0.95
Frasers CT	FCT SP	BUY	2.44	2.98	3,064	5.0	5.3	5.3	5.3	46.3	34.5	1.06
Mapletree Comm Trust	MCT SP	BUY	1.89	2.48	4,636	5.0	4.9	5.3	5.4	53.2	34.1	1.10
Mapletree Ind	MINT SP	BUY	2.69	3.72	5,314	4.7	5.3	5.6	5.8	62.2	39.9	1.50

Source: Bloomberg, UOB Kay Hian

## OVERWEIGHT

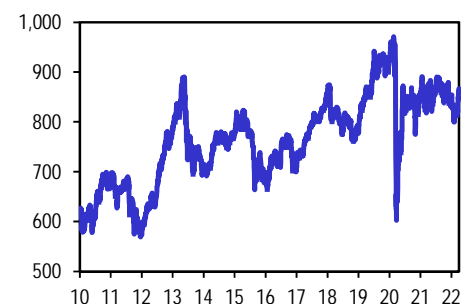
(Maintained)

### TOP BUYS

Company	Rec	Share Price (S\$)	Target Price (S\$)
ART	BUY	1.13	1.29
FCT	BUY	2.44	2.98
MCT	BUY	1.89	2.48
MINT	BUY	2.69	3.72

Source: UOB Kay Hian

### FTSE ST ALL-SHARE REITS INDEX



Source: UOB Kay Hian

### S-REIT YIELD SPREAD\*



\*Yield spread above 10-year Singapore government bond yield.

Source: UOB Kay Hian

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- US labour market remains resilient.** The US economy added 431,000 jobs in Mar 22 as retailers, restaurants and manufacturers hired more workers. The unemployment rate dropped from 3.8% to 3.6%, which is near pre-pandemic levels and 50-year low of 3.5% in Feb 20. Increase in average hourly earnings remains elevated at 5.5% yoy. The red hot job market will continue to support growth in domestic consumption and sustained recovery for the US economy.

- Retail REITs benefit from easing of safe distancing measures.** Singapore has made a decisive shift to a new phase of living with COVID-19 as an endemic. Group size for dining in at F&B establishments, including hawker centres and coffee shops, has increased from five to 10 fully vaccinated persons. The current restriction on the sale and consumption of alcohol after 10.30pm has been lifted. Up to 75% of employees can return to the workplace, compared with the previous limit of 50%. The improvement in physical occupancy at office buildings as more employee return to work from their offices will lead to higher shopper traffic at downtown malls.

- Hospitality REITs benefit from reopening of border.** Vaccinated Travel Framework has replaced the existing Vaccinated Travel Lane scheme. Fully vaccinated travellers and children aged 12 and below with COVID-19 test two days before departure will be able to enter Singapore starting 1 Apr 22. They no longer have to take an antigen rapid test (ART) within 24 hours of arrival. Travellers are not restricted to take only designated flights to enter Singapore quarantine-free. The quota on the number of daily arrivals was abolished and there is no entry approval needed for all vaccinated travellers. The Causeway is also fully reopened. Those who are fully vaccinated will be able to travel freely between Singapore and Malaysia by land, including by driving, without testing or quarantine starting 1 Apr 22. The move would kick-start Singaporeans and Malaysians taking short trips in the two neighbouring countries.

- Maintain OVERWEIGHT.** Externally, the Russia-Ukraine war creates heightened uncertainties and has pushed bond yields higher. A peace agreement remains elusive. We seek solace and support from S-REITs with resiliency. BUY ART (Target: S\$1.29), FCT (Target: S\$2.98), MCT (Target: S\$2.48) and MINT (Target: S\$3.72).

### Ascott Residence Trust (ART SP/BUY/Target: S\$1.29)

- RevPAU maintained an upward trajectory and increased 78% yoy and 24% qoq to S\$87 in 4Q21. ART has raised its asset allocation target in longer-stay assets, such as student accommodation and rental housing, to 25-30% of portfolio valuation.

### Frasers Centrepoint Trust (FCT SP/BUY/Target: S\$2.98)

- FCT's suburban retail malls cater to essential services and non-discretionary spending, which accounted for 53.6% of its gross rental income. It is well positioned to pursue acquisitions after lowering aggregate leverage to 34.5% as of Dec 21.

### Mapletree Commercial Trust (MCT SP/BUY/Target: S\$2.48)

- MCT's five properties located in the HarbourFront area, which are in close proximity to the Greater Southern Waterfront and Sentosa Island, accounted for 91.5% of its current AUM. The proposed merger with Mapletree North Asia Trust is accretive to pro forma 1HFY22 DPU by 7.5% (scrip-only) to 8.9% (scrip-and-cash and cash-only).

### Mapletree Industrial Trust (MINT SP/BUY/Target: S\$3.72)

- Data centres accounted for 52.9% of MINT's portfolio valuation (Singapore: 3.5% and US: 49.4%) as of Dec 21. Redevelopment of Kolam Ayer 2 Cluster is expected to complete in 2H22 (161 & 163 Kallang Way) and 1H23 (165 Kallang Way).

### SECTOR CATALYSTS

- Hospitality REITs and retail REITs benefit from reopening of the domestic economy.
- Limited new supply for office, logistics and retail segments in 2021.

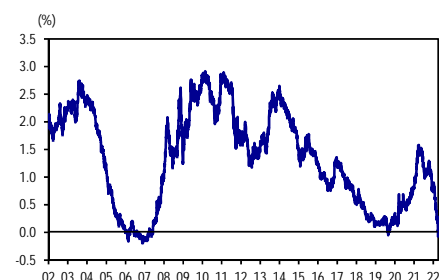
### ASSUMPTION CHANGES

- We maintain our DPU forecast for S-REITs.

### RISKS

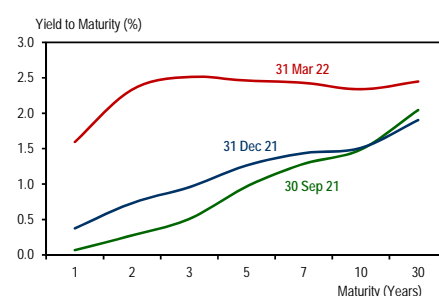
- Escalation of the Russia-Ukraine war beyond Ukraine.
- Outbreak of new variants of COVID-19.

### US GOVERNMENT BOND YIELD (10Y - 2Y)



Source: Bloomberg

### US YIELD CURVE



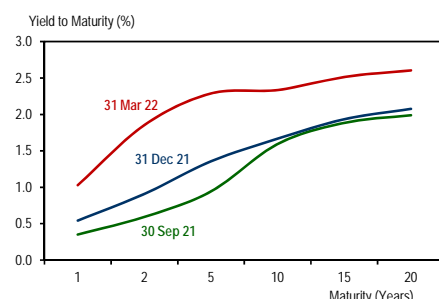
Source: Bloomberg, UOB Kay Hian

### SINGAPORE GOVERNMENT BOND YIELD (10Y - 2Y)



Source: Bloomberg

### SINGAPORE YIELD CURVE



Source: Bloomberg, UOB Kay Hian

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